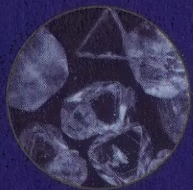


2000 ANNUAL REPORT





What does our logo mean?



The term Shear is a geological term used to describe surfaces or planes along which movement takes place in rock masses. Shear zones are often the focus for gold mineralization, such as at the Con Gold Mine in Yellowknife, NWT.

The geological symbol representing this are the squiggle lines in our logo; the blue circle represents the world.







On behalf of the Board of Directors, I am pleased to report on Shear's activities and present the audited financial statements for the year ending November 30, 2000.

We enter the 2001 exploration season with optimism.

Since Shear's inception in 1996, its management team has worked to identify diamond and gold properties of merit and advance their potential. As a result, in 2001 several of Shear's projects have reached the drill testing stage; these include: Coronation, Aylmer Lake West, Pelican, Shulin and Miminiska to name a few. During the past five years the company's shareholders have been supportive and patient while our property portfolio was advanced. We believe that advancing mineral properties to the drill stage, then drill testing selected properties, such as the Nicholas Bay Kimberlite where we recently have obtained encouraging diamond results, presents the best opportunity to enhance shareholder value, given the current market conditions in the junior mining sector.



Shear remains fully committed to diamond exploration. The diamond sector has remained buoyant and is predicted to remain so in the foreseeable future. Canada has emerged as an important world producer and is well positioned to become the supplier of choice. Diamond exploration is expensive but the rewards are significant. Revenues in the order of \$25 Billion have been predicted over a mine life of 15 years for the first two Canadian diamond mines in the Lac de Gras area.

Our focus will remain in Canada due to the stable economy and market and because Canada has one of the most unexplored and favorable environments for kimberlite and diamonds. In geology this ancient stable crust often located in the core of our continents is referred to as a craton. Two of the world's largest cratons are located in Canada.

The Slave Craton, located in the Northwest Territories is host to nine discovered mineable kimberlites today, a proven economic diamond region. The EKATI™ Mine produced 2.6 million carats in the last year. The Diavik Diamond Project is under construction. Winspear's Snap Lake Project was this year the focus of a successful unsolicited takeover bid by De Beers. This region, with the extensive data from Canada's largest staking rush ever, provides an opportunity for an aggressive junior company to participate amidst the major players.

Diamond plays are occurring throughout Canada; with not only the NWT continuing to be highly favourable, but also Manitoba, Quebec, Ontario, Alberta and Saskatchewan becoming new areas of interest. Our expertise in the 'North' encourages us to focus your resources in the area we have proven to be most successful, while we are keenly observing the other area plays.

Several mergers relating to the diamond industry were made throughout 2000. RTZ's acquisition of Ashton Mining and the recent sale of DiaMet Minerals Ltd. to BHP Ltd. emphasizes the rewards involved in diamond mining.

In the rush to reach production phases, major companies have left areas in which we believe many new discoveries will be made with added due diligence and staged exploration. As a junior exploration company, Shear sought a property close to Lac de Gras that had not been evaluated since the early days of diamond exploration. Based on our updated kimberlite knowledge, we strategically selected the Aylmer Lake West Property, host to the diamondiferous Nicholas Bay Kimberlite. Further analyses by Shear returned quantities of diamonds in excess of what had been reported by previous operators. Review of new geophysics has revealed a number of kimberlite targets within four km of the Nicholas Bay Kimberlite. Since kimberlites are known to occur in clusters, we believe that this area has good potential for further discoveries.



Shear was successful in the completion of two financings in 2000. Shear's first placement raised \$212,450 of flow through financing; and our October financing by Research Capital Ltd. raised \$698,175 in unencumbered capital. These funds will allow Shear to drill test several properties. As Shear has seen its share price fluctuate between \$0.85 and a more recent price of \$0.24, before further financing we will await results from our current diamond programs. The expected positive results should stimulate share prices.

Shear has benefited from our many partnerships. The Aylmer Lake West Project has allowed Shear to benefit from the strong technical ability and past diamond exploration experience of partner Diamondex Resources Ltd. Others that have played an important role in our strategy include Shulin Lake Mining Inc. and Grizzly Gold Inc. These relationships and other alliances will remain key success factors.

The Alberta Diamond Play continues to advance. In July 2000 the best diamond results to date in Alberta were reported and new kimberlite discoveries continue to be announced.

Alberta presents an opportunity where exploration costs remain lower than most jurisdictions. Shear will continue to evaluate opportunities here, especially in light of recent Alberta involvement by BHP Diamonds Inc.

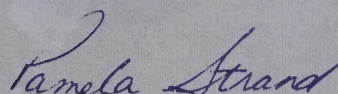
In 2000 Shear ventured away from the norm in diamond exploration – to Alaska. Results from our Shulin Lake Property indicated the presence of mantle signature rocks of alkaline affinity. Shear conducted systematic exploration and recently elected to take a reduced vested interest of 24%. The joint venture continues as a joint management committee with Shulin Lake Mining Inc. as operator and Golconda Resources Ltd. Shulin has excellent logistical experience and infrastructure/access in the area and has recently drill tested three targets with sample analyses pending. Shear will continue to play a role in this property and remains enthusiastic.

Shear has a number of gold properties that are drill-ready. Three of these are located in the northeastern Slave Province of the new Nunavut Territory where several senior mining companies are active. With the proposed increase of government spending on infrastructure such as all weather roads, many shelved projects are now being re-visited. Shear is currently speaking with several companies interested in our gold properties.

We are excited about Shear's future and optimistic that one or more of our current exploration projects will result in success for the company and increased value for our shareholders. Going forward, our exploration and acquisition efforts will continue to focus on diamonds.

I would like to thank our Board for their ongoing hands on management role, as well as our consultants who provide continual technical advice. Most of all I wish to personally thank our shareholders for their dedication and continued support.

We look forward to sharing further successes with you in 2001.



Pamela D. Strand, P. Geol.  
President & CEO

March 31, 2001



## AYLMER LAKE WEST diamonds

Shear Minerals Ltd. is currently exploring the **Aylmer Lake West Property** in partnership with Diamondex Resources Ltd. The property (18,077 acres) is strategically located to the east of the prolific Lac de Gras kimberlite field, approximately 95-km southeast of the EKATI™ Diamond Mine, and 65 km southeast of the Diavik Diamond Project in the Northwest Territories. To date, one diamondiferous kimberlite, the Nicholas Bay Kimberlite ("NBK") has been discovered on the Property and is the easternmost kimberlite in the Lac de Gras field. Shear is earning into a 49% interest from Diamondex Resources Ltd. by spending \$200,000 on exploration before June 30, 2002. Shear acquired the Aylmer Lake West Property to re-examine the NBK in conjunction with other local untested geophysical targets using our expanding knowledge of kimberlite signatures. With Shear's involvement in this property since February 2000, Aylmer Lake West has recently emerged as our leading property for this winter exploration season.

Previous work on the property totals more than \$600,000 with more than \$ 1.2 Million on a larger area (226,000 acres) which defines the extent of our dataset and area of mutual interest. Between 1992 and 1994 work included limited till sampling, regional airborne geophysical surveys (200m line-spacing), follow-up heli-mag/ground geophysics and drilling of five targets. Drilling of one high priority target intersected the NBK. Eleven drill holes (3,226m) tested the NBK target of which 10 intersected kimberlite. Caustic fusion was conducted on a 230-kg core sample and returned 4 macrodiamonds (>0.5mm in at least one direction) and 176 microdiamonds (exceeding 0.10mm in at least one dimension). The property sat dormant since the fall of 1994 until Shear and Diamondex involvement in 2000.

After the agreement was signed with Diamondex, Kennecott was granted an option to explore the property until June 30, 2000 on the claims outside of the NBK claim. The option was never exercised and has since lapsed. During the course of their option Kennecott conducted \$90,000 in exploration including 75m line spaced airborne geophysics, ground geophysics over three targets and drill-tested of one target at which no kimberlite was intersected.

Our first stage of exploration consisted of a compilation of all existing data. All previous airborne geophysics was reinterpreted and new targets were selected and ranked. 1,295 feet of kimberlite drill core located in Yellowknife allowed us to re-log with new interpretations. All unprocessed kimberlite core was sent for both indicator mineralogy and diamond analysis. A sample totaling 127.7-kg was submitted for caustic fusion analysis and a total of 1,180 diamonds were recovered of which 6 were macrodiamonds. These results indicate a much greater abundance of diamonds than was previously reported. Indicator mineral chemistry supports the diamondiferous nature of this pipe.

Results indicate that the NBK is a clear high-priority target that is more complex than previously thought. In addition, a number of additional high priority geophysical targets have been defined on the property, many within four km of the NBK. A program is underway that includes detailed ground geophysics (magnetics and HLEM) over the NBK and other high-priority geophysical targets. Drill testing of the NBK and other selected targets will follow.



OBED-Edson-Wildhay  
diamonds

Pelica  
diamonds

## AYLMER LAKE WEST PROJECT Northwest Territories





athurst, BR, Nose

gold

CORONATION DIAMONDS  
diamonds



## CORONATION DIAMOND PROPERTY Nunavut Territory



Shear holds 100% ownership interest in 34 claims covering over 70,000 acres referred to as the **Coronation Diamond Property** ("CDP"). Shear acquired the claims in 1997 and has gradually reduced the land package to include only the most prospective areas based on our results. This property is located within the Kitikmeot Region of the Nunavut Territory, 450 kilometres northeast of the City of Yellowknife and 150 kilometres northeast of the Lac de Gras diamond mines.

Inuit Associations, industries, territorial and federal governments continue to work towards the development of a deep-sea port and an all-weather road in the region. With these encouraging initiatives and local government support we expect to see accelerated advancement of the mining potential in this region.

The CDP is predominately underlain by the same Archean aged rocks as the Lac de Gras area and we hypothesize that the area is likely favorable for the formation and preservation of diamonds and their subsequent transport to surface by kimberlitic magmas. Many kimberlites have been discovered at greater distances than the CDP from the Lac de Gras region in the Slave craton. Our property is within strategic proximity to Lac de Gras and the discovery of a kimberlite in this region has likely not taken place due to remoteness and minimal exploration expenditures. In the area of the CDP, Shear is aware of relatively deep tapping lamprophyres and other unusual rock types such as breccias and possible carbonatites.

Prior exploration work has been sparsely conducted in the area for diamonds in fact most work in the area has and continues to focus on selected iron formation-hosted gold projects such as Kinross Gold Corporation's George/Goose Lake gold deposits (1.2 million oz). At the CDP, past owners have spent more than \$1 Million including a 15,000 line-km regional airborne geophysical survey (200m line spacing) and limited till and stream samples. Exploration has shown that kimberlites in the Lac de Gras field are usually small and some flight lines may miss such targets thus requiring geophysics at tighter line spacing.

During the summer of 1998 Shear collected 162 till and stream samples, completed air photo structural and glacial interpretations, and conducted ground verification of selected geophysical targets, and prospecting/sampling. Kimberlite indicator minerals that were found indicate a source on or in the vicinity of our CDP. Due to the widespread sample spacing, in the fall of 2000 Shear conducted a target specific sampling program to evaluate 15 higher priority geophysical targets. Anomalous samples clustered at six geophysical targets, including one high priority target referred to as the 'Crown' Anomaly.

Work planned for the 2001 season is directed at developing these targets. Exploring new targets within the existing land package will be driven by the results of this year's program.

The **Shulin Lake Property** consists of 99 State Mining Claims covering a total area of 12,600 acres located approximately 300 kilometres north of Anchorage, Alaska. Shear was earning into a 50% interest from Shulin Lake Mining Inc., but Shear has recently announced the decision to retain a 24% interest that is carried for the next \$150,000 in expenditures. Although Alaska is not the traditional model for diamonds, diamonds have been reported from various operations in Alaska. Recent opportunities justified an examination of the area by Shear. Shear's participation was facilitated by conditions offered in our agreement with Shulin Lake Mining Inc. and with a conservative expenditure Shear has maintained our goal of focusing exploration in selected emerging frontiers.

Previous exploration at the Shulin Lake Property resulted in the discovery of gold and anomalous diamond indicator mineral work indicative of alkaline mafic/ultramafic source rocks that may include kimberlite or lamproites or both in the region. Shear conducted a till, stream and rock sampling prospecting program followed by an airborne geophysical survey. As a result, a number of shallow-sourced geophysical anomalies, possibly indicative of intrusives were selected. A large (5 km in diameter) basement magnetic-high anomaly underlies the property. Ground geophysics was completed over six targets and subsequently Shulin Mining has drill tested three targets. Samples are currently being processed at two labs and results are pending before further work is carried out.

## SHULIN LAKE PROPERTY Alaska



### SHULIN LAKE diamonds



The **Alberta Diamond Play** continues to produce new kimberlite discoveries and diamond results. Currently 46 kimberlites have been discovered in three clusters. Shear entered the play in 1998 and continues to advance selected properties. Alberta presents a very friendly exploration climate where funds go a long way due to access and infrastructure on account of oil and gas activities. To date, the best diamond results were reported by Ashton Mining of Canada in July 2000. Other companies such as New Blue Ribbon Resources Ltd. announced a new kimberlite and the play has recently attracted BHP Diamonds Ltd., who acquired mineral rights to over 70 townships adjoining Shear's Pelican Mountains property. Shear's acquisition strategy is to research and acquire land with conditions favorable for diamondiferous kimberlite exploration. These include minimal till thickness, favorable regional geology and structure, good access and positive past work results. Shear will continue to advance selected Alberta properties based on the availability of funds, area activities, the direction of the Board and input from shareholders.

## ALBERTA DIAMOND PLAY Alberta Properties

- Pelican Mountains
- OBED, Edson



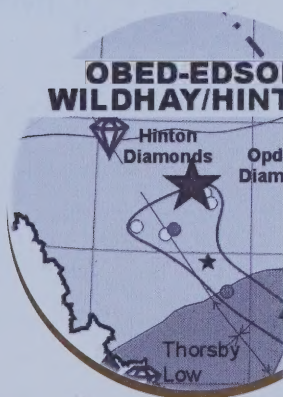
## Pelican Mountains

Shear's most advanced Alberta property is the Pelican Mountains Property, located 150km northeast of Edmonton. Shear holds title to the diamond rights for 16,384 hectares. The Property lies in the Western Canadian Sedimentary Basin along the south flank of the Peace River Arch and is underlain by basement cratonic rocks termed the Buffalo Head Craton that is currently the focus of extensive diamond exploration in northern Alberta. The region is host to major faults, surface lineaments and other features indicative of structural breaks, that are favourable pathways for kimberlite volcanism.

In 1998, an airborne magnetic survey was conducted over the area and identified twenty-eight anomalies with kimberlite signatures. Samples from the drainages surrounding, and down-ice till from several of these anomalies returned several kimberlite indicator minerals including pyrope garnet, eclogitic garnet, low-chrome diopside, picroilmenite, and chromites. In general, the indicator minerals from the sampling suggest the presence of kimberlite or lamproite magmatism within the region.

Two airborne magnetic targets were selected and ground magnetic surveying was performed during early 2000. The surveys confirmed the anomalies with signatures similar to other kimberlites discovered to date in Alberta. These anomalies are between 200 and 300 metres in diameter and have intensities of approximately 40 nanoteslas. These anomalies are located on existing seismic lines, with excellent winter road access for drilling. In spring 2001 Shear attempted to drill test one target. The hole had to be abandoned due to warm weather and because an aquifer was intersected. Given the recent interest in this area, Shear will continue to evaluate these targets.

## OBED, Edson



In 2000 Shear acquired a 100% interest in the OBED-Edson Properties totaling 130,373 hectares and located in west-central Alberta, approximately 260 km west of Edmonton. Placer gold has been panned from many of the major rivers in the vicinity of the OBED Property but the region has had a long history of diamond discoveries such as the first diamond found in Alberta and twenty-three diamonds in the Wildhay River area. In October 1999 three townships in the Wildhay River area were staked by Shear to secure this diamond site.

Past exploration recovered anomalous metals and kimberlite indicator minerals in bedrock, till and stream samples with diamond inclusion quality chromites that are some of the best chemistries seen in Alberta to date. Anomalous gold, silver, zinc, cadmium, and chromium were recovered from stream and rock samples. There is a reasonable possibility that an intrusive kimberlitic or lamproitic body may exist within or in close proximity to the OBED Property.

In late 1999, Shear acquired high-resolution fixed-wing airborne magnetic data for the Property. Several circular to semicircular anomalies are visible in the magnetic data. These include three prominent magnetic features, and eight subtle high frequency magnetic highs and lows around the periphery of a large basement magnetic high.

Further work is warranted on the OBED Property and will include ground verification of the airborne geophysical targets, followed by ground geophysics and drill testing of priority targets.



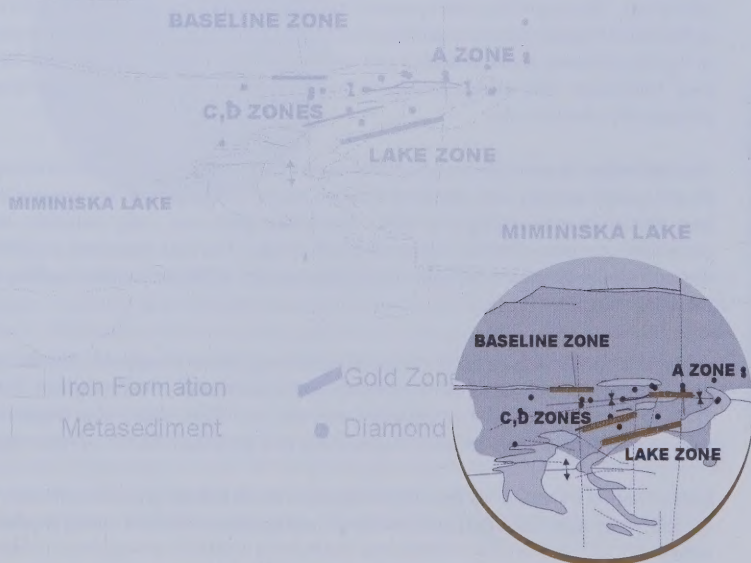
In addition to those properties listed above, Shear holds title to several gold properties in the Nunavut Territory and Ontario. These add value to Shear's portfolio with most claims in good standing for the next few years. At present, Shear has placed these on the 'back burner' pending new area developments or positive movement in the price of gold. Recently interest has been shown to option the package of gold properties.

The **Miminiska Property** consists of 7,050 acres located in northwestern Ontario, 145 kilometres northeast of Pickle Lake and 75 kilometres east of Placer Dome Inc.'s Musselwhite gold mine. Approximately \$750,000 has been spent by prior explorers on the property, mostly directed towards drilling. Shear retains an option to earn into 50% from Brancote Canada Ltd (now owned by Landore Resources Ltd.) by spending \$2 Million over 10 years.

A total of 50 drill holes totaling 5,333 metres have been drilled on the Miminiska Lake in 1944 and 1988. The programs delineated five structurally controlled gold zones hosted by iron formation. Assay results include five g Au/t across six m in the A Zone, 3.7 g Au/t across 1.5 m in the B Zone, 5.5 g Au/t across 3.1 m in the C Zone, 3.77 g Au/t across 2.5 metres from the Lake Zone and 13.3 g Au/t across 3.96 m in the Baseline Zone. Utilizing past drilling results Shear has calculated an inferred resource of 880,773 tonnes at an average grade of 3.16 g Au/t for 81,874 contained ounces of gold for the Property.

Potential exists to expand the preliminary resource. Shear's exploration program will be leading towards drill-testing the extent of the strike and depth of the five previously identified gold zones through a drill program.

## MIMINISKA LAKE PROPERTY Ontario





## BATHURST PROPERTY Nunavut Territory

- Hen
- Hunt
- Bear

Bathurst Property, Nunavut Territory  
(Hen, Hunt, Bear Leases) **GOLD**

- 100% in 5 mineral leases covering 12,400 acres
- Past work totals \$700,000 by Echo Bay Mines Ltd.
- Discovery of 15 gold showings in complex folded iron formation
- Best intersection 9.12 g Au/t over 2.85m; rock grab samples up to 167.8 g Au/t
- Drill ready targets

## BR PROPERTY Nunavut Territory

BR Property, Nunavut Territory **GOLD**

- 100% interest in 5 claims covering 10,330 acres
- Claims in good standing until 2005
- Past expenditures \$175,000
- Gold zones in iron formation and sheared volcanic rock
- Rock chip assays up to 3.4 g Au/t over 3m
- Over 30 km of favourable strike extent.

## NOSE PROPERTY Nunavut Territory

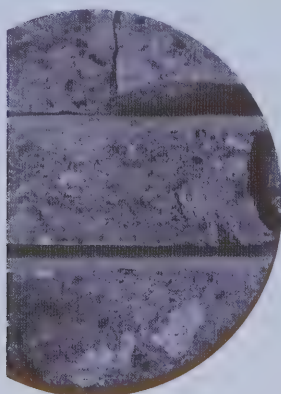
Nose Property, Nunavut Territory **GOLD**

- 100% interest in 2 claims covering 5,165 acres
- In good standing until 2002
- Past expenditures \$75,000
- Two iron formational units up to 12m wide
- Rock samples up to 7 g Au/t

## VERMILION RIVER PROPERTY Ontario

Vermilion River, Ontario **DIAMONDS**

- 50% interest in 4 claims totalling 992 ha
- Staked to protect 6 kimberlite targets
- Located 80 km north of Sudbury, ON
- Partnered with Northern Shield Resources





## Management Team

Ms. Strand has been the President and CEO of the Corporation since 1997. Since 1988 Ms Strand has been employed as a geologist in the exploration and mining industry. This has included work as a District Geologist for the Department of Indian Affairs and Northern Development, and as an exploration geologist for Miramar Mining Corporation, Homestake Mineral and Development and Noble Peak Resources Ltd. Ms. Strand was also Vice President, Corporate Development for Pinnacle Resources (1996) Ltd., a mineral property broker for 2 years. She is a Professional Geologist with APEGGA and a Director of the NWT and Nunavut Chamber of Mines. Ms. Strand is also currently a Director on several private companies such as GravelTech Inc., 974134 NWT Ltd., and Kinver Mining NL. Ms. Strand has a B.Sc. from the University of Toronto and a M.Sc. in Economic Geology from the University of Western Ontario.

**Pamela D. Strand**  
P. Geol.  
*President & CEO*

Mr. Planche is a Calgary-based businessman who has, since 1989, been the President of Flagship Investments Ltd., which has interests in various commercial interests in North America, Central America, Asia and Australia. He is also the President of Accu-Ram West Inc and a Director on Alliance Energy Inc., a publicly traded oil company.

**Donald R. Planche**  
*Vice President & Director*

Mr. David Mullen is Senior Vice President and a Director of Mullen Transportation Inc. (a public company listed on the TSE) and Vice President of Mullen Trucking Inc. ^ Truckload Division. Since 1978 he has served in various marketing and operating capacities with Mullen Transportation and was instrumental in the development of the Truckload Division. Mr. Mullen is involved as a Director and shareholder through Shulin Lake Mining Inc. in placer gold operations in Alaska and other mineral interests in North America.

**David Mullen**  
*Director*

Mr. Agar obtained a Bachelor of Science Degree in Geological Engineering from the University of Saskatchewan in 1952 and has over 40 years experience in the oil and gas, mining and financial industries. As President of Mineral Resources International Ltd and Director of Nanisivik Mines Ltd, he was instrumental in developing and bringing into production the Nanisivik Mine on Baffin Island. He is currently a director of Five A Investments Ltd, NuGold Technology Ltd., Stratabound Minerals Ltd. and Frontier Energy Ltd.

**Frank Agar**  
P. Eng.  
*Director*



# Shear Minerals Ltd.

## Consolidated Financial Statements

### November 30, 2000 and 1999

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP  
Chartered Accountants  
1501 Toronto Dominion Tower  
10088 - 102 Avenue  
Edmonton Alberta  
Canada T5J 2Z1  
Telephone +1 (780) 441 6700  
Facsimile +1 (780) 441 6776

February 21, 2001  
(except for note 10, which is as at March 8, 2001)

#### Auditors' Report

To the Shareholders of  
Shear Minerals Ltd.

We have audited the consolidated balance sheets of **Shear Minerals Ltd.** as at November 30, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2000 and 1999 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

Edmonton, Alberta

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.



# Shear Minerals Ltd.

## Consolidated Balance Sheets

As at November 30, 2000 and 1999

	2000 \$	1999 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	606,069	186,612
Accounts receivable	26,705	69,994
Prepays	187	12,000
	<u>632,961</u>	<u>268,606</u>
<b>Investment</b> (note 3)	27,000	27,000
<b>Capital assets</b> (note 5)	2,543	-
<b>Mineral properties</b> (notes 4 and 10)	<u>1,606,112</u>	<u>1,005,089</u>
	<u>2,268,616</u>	<u>1,300,695</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accruals	76,353	152,635
<b>Future income taxes</b> (note 6)	<u>261,144</u>	<u>261,144</u>
	<u>337,497</u>	<u>413,779</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 7)	2,354,055	1,122,227
<b>Deficit</b>	<u>(422,936)</u>	<u>(235,311)</u>
	<u>1,931,119</u>	<u>886,916</u>
	<u>2,268,616</u>	<u>1,300,695</u>

Approved by the Board of Directors

(Signed) Pamela Strand

Director

(Signed) Donald Planche

Director



# Shear Minerals Ltd.

## Consolidated Statements of Loss and Deficit

For the years ended November 30, 2000 and 1999

	2000 \$	1999 \$
<b>Revenue</b>		
Interest	512	278
<b>Expenses</b>		
General and administrative	68,033	29,757
Management fees	44,200	23,869
Professional fees	41,635	30,372
Consulting fees	2,206	27,500
Interest	1,538	6,733
	157,612	118,231
	(157,100)	(117,953)
<b>Write down of mineral property</b>	30,525	-
<b>Net loss for the year</b>	(187,625)	(117,953)
<b>Deficit – Beginning of year</b>	(235,311)	(117,358)
<b>Deficit – End of year</b>	(422,936)	(235,311)
<b>Loss per share</b>	(0.01)	(0.01)
<b>Weighted average number of shares outstanding</b>	13,003,975	9,037,990



# Shear Minerals Ltd.

## Consolidated Statements of Cash Flows

For the years ended November 30, 2000 and 1999

	2000 \$	1999 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(187,625)	(117,953)
Items not affecting cash		
Depreciation	449	-
Write down of mineral property	30,525	-
	(156,651)	(117,953)
Net change in non-cash working capital balances relating to operating activities	(88,680)	52,694
	(245,331)	(65,259)
<b>Financing activities</b>		
Issuance of shares	1,219,498	320,400
Share issue costs	(155,416)	(1,043)
	1,064,082	319,357
<b>Investing activities</b>		
Mineral properties		
Acquisition costs	(125,558)	(31,439)
Exploration costs	(270,744)	(42,166)
Purchase of computer equipment	(2,992)	-
	(399,294)	(73,605)
<b>Increase in cash</b>	419,457	180,493
<b>Cash – Beginning of year</b>	186,612	6,119
<b>Cash – End of year</b>	606,069	186,612



# **Shear Minerals Ltd.**

## **Notes to Consolidated Financial Statements**

**November 30, 2000 and 1999**

---

### **1 Nature of operations**

Shear Minerals Ltd. (the "company") was incorporated, under the Business Corporations Act (Alberta) on November 16, 1995. In February 1996, the company obtained a listing on the Alberta Stock Exchange as a junior capital pool pursuant to Alberta Securities Commission's Policy 4.11 ("Policy 4.11"). On December 12, 1997, the company completed its major transaction within the meaning of Policy 4.11 and commenced its operation as a junior mineral exploration company whose activities are primarily in Canada.

The company is in the process of exploring its mineral properties and has not yet determined whether these properties contain precious mineral reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown in note 4 represent costs to date for property acquisition (including mineral claims and permits) and exploration expenditures, and do not necessarily reflect present or future values.

### **2 Accounting policies**

#### **Use of estimates**

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### **Consolidation**

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary 974134 N.W.T. Limited ("NWT").

#### **Cash**

Cash is defined as cash on deposit, term deposits in money market instruments with original maturities of less than three months and bank overdrafts repayable on demand.

#### **Investments**

Portfolio investments in which the Company does not have significant influence are carried at cost. When there is a decline in value that is other than temporary, a write down is recorded.

# **Shear Minerals Ltd.**

## **Notes to Consolidated Financial Statements**

**November 30, 2000 and 1999**

---

### **Capital assets**

Capital Assets are recorded at cost less accumulated depreciation. Depreciation on computer equipment is calculated using the declining balance method at 30% per annum.

### **Mineral properties**

Direct costs relating to the acquisition, exploration and development of mineral properties, including interest on borrowings directly related to a property, are capitalized on an area of interest basis. These expenditures will be charged against income, through unit-of-production depletion, when properties are developed to the stage of commercial production. Where the company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. If an area of interest is abandoned or management determines there is a permanent and significant decline in value, the related costs are charged to operations.

### **Income taxes**

The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

### **Flow-through common shares**

The company credits the proceeds of flow-through common shares, which transfer the deductibility of exploration expenses to the investor, to share capital. A future tax liability is recorded and share capital is reduced by the cost of future taxes when the expenditures are renounced to the holder of these shares.

### **Loss per share**

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is not presented, since it is anti-dilutive.

### **Joint interest options**

Certain of the company's exploration activities are conducted jointly with others. These financial statements reflect only the company's proportionate interest in such activities.



# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements

November 30, 2000 and 1999

### 3 Investment

	2000 \$	1999 \$
Ellesmere Minerals Ltd. – 100,000 common shares	27,000	27,000

The market value of these shares based on the trading price at November 30, 2000 was \$23,000 (1999 – \$20,000).

### 4 Mineral properties

			2000	1999
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$
Alberta				
North East Alberta	100	3,000	7,994	10,994
Pelican Mountains	100	-	86,941	71,943
Boys From the Hall	85	35,000	28,940	28,940
OBED-Edson Alberta	100	82,500	13,196	-
Northwest Territories				
BR	100	88,475	167,052	255,527
Nose Lake	100	88,475	55,926	144,401
Bathurst	100	73,376	4,247	61,291
Coronation Diamond	100	299,991	166,510	341,649
Aylmer Lake West	49	62,000	19,217	-
Needle	100	-	-	30,525
Ontario				
Miminiska Lake	51	81,583	34,113	59,819
Vermilion River	50	13,500	1,068	-
Alaska				
Shulin Lake	50	90,750	102,258	-
		918,650	687,462	1,606,112
				1,005,089

Cumulative exploration costs include \$25,000 of capitalized interest.

# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements November 30, 2000 and 1999

---

### Contractual options

#### a) Miminiska Lake

In July 1997, the Company's subsidiary, NWT, signed an option agreement with Pinnacle Resources (1996) Ltd. ("Pinnacle") to acquire a 51% earn-in on Miminiska Lake Patented Claims (1,120 acres) and 150 units (5,925 acres) staked in July 1997, both in Northwestern Ontario, with Brancote Canada Ltd. ("Brancote").

The option term is for ten years with extensions, so long as the properties are being maintained and work is being carried out. The earn-in is for 51% after incurring expenditures of \$2,000,000 by NWT. Once NWT has earned 51%, Brancote may (a) elect a 49% participating interest in the project by contributing 49% of the subsequent costs or (b) elect a 25% free carried interest until such time as NWT has completed a bankable feasibility and advised Brancote of its intention to develop a mine at the project. If Brancote elects (b) above and NWT completes its feasibility study and advises Brancote of its intention to develop a mine at the project, Brancote may (a) elect a 25% participating interest in the project by contributing 25% of the costs or (b) elect a 2% net smelter production royalty.

During 1998, the Company paid Pinnacle \$20,000 for the option and \$26,255 to cover claim staking costs for 150 units located by Brancote at Miminiska Lake, of which \$10,000 was paid to Brancote on the execution of the option. The option was held by NWT prior to completing the major transaction. In addition, the Company paid Brancote \$15,000 (comprised of 40,000 shares and \$7,500 in cash) in 1999 pursuant to the agreement. The Company is required to pay Brancote \$15,000 increasing by \$1,000 a year on each anniversary date until such time as Brancote elects to take a participating interest. When NWT earns a 50% interest, such payments shall be reduced to \$10,000 increasing \$1,000 per year thereafter. Brancote also holds a reservation of a 1.5% net smelter royalty on the Company's share of production from mining operations on the Project.

#### b) Aylmer Lake West

In February, 2000, the Company issued 200,000 common shares at \$0.31 per share to Diamondex Resources Ltd. for an option to earn a provisional 49% interest in seven claims comprising the Aylmer West property. To maintain its option to earn an interest in these claims, the Company must spend \$60,000 prior to March 1, 2001, and an additional \$140,000 prior to June 30, 2002.

#### c) Shulin Lake

In December, 1999, Shulin Lake Mining Inc. ("Shulin") granted the Company an option to earn into a 50% interest in certain claims (the "Shulin Lake Property") located in Alaska, USA. To acquire the option, the Company issued 400,000 common shares to Shulin at a deemed value of \$0.165 per share, and must incur \$275,000 in exploration expenditures on or before March 31, 2002. In June 2000, the Company issued an additional 150,000 common shares to maintain the option. An additional 850,000 common shares are reserved for property payments contingent on future events occurring. Subsequent to year-end, the option agreement with Shulin was amended (note 10).



# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements

November 30, 2000 and 1999

### d) OBED-Edson

In December, 1999, the Company acquired a 100% interest in certain mineral permits located in Alberta referred to as the OBED-Edson property by the issuance of 500,000 common shares at \$0.165 per share and the reservation of a 2% gross overriding royalty. A further 500,000 common shares are reserved for property payments contingent on future events occurring.

### Other commitments

The company's subsidiary, NWT, is obligated to pay a:

- e) 2% net smelter royalty fee on its Bathurst property to Echo Bay Mines Ltd.;
- f) 1.5% net smelter royalty fee on its Nose and BR Properties payable to Pinnacle; and a
- g) 1% net smelter royalty fee on its Coronation Diamond property payable to Pinnacle.

## 5. Capital assets

	2000		1999	
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Computer equipment	2,992	449	2,543	-

## 6 Income taxes

The company's income tax expense is made up of the following:

	2000 \$	1999 \$
Income tax recovery based on a combined federal and provincial (territorial) tax rate of 43.12%	80,904	50,861
Increase (decrease) in taxes resulting from:		
Non-deductible finance fees	-	(11,858)
Other non-deductible items	(6,308)	(1,162)
Share issue costs deductible for tax purposes	-	450
Benefit of losses and future deductions not recorded	(74,596)	(38,291)
	-	-

# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements

November 30, 2000 and 1999

The future income tax assets and liabilities comprise the following temporary differences:

	2000 \$	1999 \$
Capital assets	194	-
Deductible finance fees	66,462	12,033
Tax losses	130,190	110,217
Valuation allowance	(196,846)	(122,250)
	<hr/>	<hr/>
Future income tax assets – long-term	-	-
Mineral properties	(261,144)	(261,144)
	<hr/>	<hr/>
Future income tax liabilities – long-term	(261,144)	(261,144)
	<hr/>	<hr/>

The company has incurred the following non-capital losses for tax purposes:

	Non-capital loss \$	Expiry Date
November 30, 1997	2,008	2003
1998	75,680	2004
2000	224,238	2006
	<hr/>	
	301,926	
	<hr/>	

At November 30, 2000, the company was committed to incur qualifying expenditures of \$212,450 (1999 – \$nil), in connection with tax renouncements made to the holders of 607,000 (1999 – nil) flow-through common shares. In 1999, expenditures of \$419,000 were effectively renounced, therefore a future tax liability was recorded in the amount of \$180,673, with an offset to share capital. There were no renouncements in 2000.



# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements

November 30, 2000 and 1999

### 7 Share capital

#### Common shares

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued and issuable

	2000		1999	
	Number	\$	Number	\$
Balance – Beginning of year	10,875,332	1,122,227	8,096,000	889,043
Shares issued for cash	2,508,500	1,015,625	2,049,332	329,900
Share options exercised	70,000	15,000	580,000	58,000
Warrants exercised	715,999	142,860	-	-
Shares issued for other consideration	1,250,000	235,250	150,000	27,000
Share issue costs	-	(176,907)	-	(1,043)
Future income taxes	-	-	-	(180,673)
Balance – End of year	15,419,831	2,354,055	10,875,332	1,122,227

As at November 30, 2000, the number of common shares held in escrow are 679,005 (1999 – 999,005).

In May 2000, the company issued 350,000 common shares at \$0.30 per share and 607,000 flow-through common shares at \$0.35 per share in a private placement for total proceeds of \$317,450. The company will be required to incur \$212,450 of qualifying expenditures to be renounced to holders of the 607,000 flow-through shares.

In September 2000, the company issued 1,551,500 units in a public offering at a price of \$0.45 per unit, for a total proceeds of \$698,175. Each unit issued is comprised of one common share and one flow-through common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.60 to be issued as a flow-through share exercisable at any time within two years of the closing of the offering, October 11, 2000. In addition, 155,150 warrants were issued to the agent at an exercise price of \$0.45 per common share, to expire on October 11, 2002.

In October 1999, the company issued 1,500,000 units in a private placement at a price of \$0.165 per unit. Each unit is comprised of one common share and one warrant to acquire one common share at a price of \$0.165 per common share to expire January 17, 2002. At November 30, 2000, 1,333,333 warrants remain unexercised.

During the year ended November 30, 2000, the company issued 1,250,000 common shares to acquire and satisfy contractual options for mineral properties as described in note 4.

# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements

November 30, 2000 and 1999

In December 1998, the company issued 549,332 units at a price of \$0.15 per unit for proceeds of \$82,400. Each unit is comprised of one common share and one warrant to acquire one common share at a price of \$0.21 per common share, expiring November 30, 2000. By November 30, 2000, all 549,332 warrants were exercised.

In December 1998, the company issued 150,000 common shares in exchange for 100,000 shares of Ellesmere, which were recorded at \$27,000 (note 3).

### Share options

The company has established a stock option plan for the benefit of directors and management of the company. The following table summarizes activity related to the stock options:

	2000		1999	
	Number of Shares #	Weighted average exercise price \$	Number of Shares #	Weighted average option price \$
Balance – Beginning of year	70,000	0.17	650,000	0.11
Granted	900,000	0.25	-	-
Exercised	(70,000)	(0.21)	(580,000)	0.10
Balance – End of year	900,000	0.25	70,000	0.17

On December 30, 1999, the company granted 900,000 stock options at an exercise price of \$0.25 per share, to expire 2005, to various directors, senior officers and consultants of the company.

### Warrants

	2000		1999	
	Number of shares #	Weighted average exercise price \$	Number of shares #	Weighted average exercise price \$
Balance – Beginning of year	2,049,332	0.18	-	-
Issued	1,706,650	0.59	2,049,332	0.18
Exercised for shares	(715,999)	0.20	-	-
Balance – End of year	3,039,983	0.40	2,049,332	0.18



# Shear Minerals Ltd.

## Notes to Consolidated Financial Statements November 30, 2000 and 1999

---

### 8 Related party transactions

The company has incurred the following transactions with companies in which certain directors and officers of the company have significant influence:

	2000 \$	1999 \$
Pinnacle		
Interest	25,000	-
Management fees	-	2,000
Apex Geoscience		
Exploration expenditures	28,432	42,166
General and administration expenditures	846	2,020
Encore Resources		
Management fees	44,200	-
Included in accounts payable relating to these transactions	-	98,363

Effective January 2000, Apex Geoscience ceased to be a related party and effective May 2000, Pinnacle ceased to be a related party since directors of the company no longer have significant influence over these companies. The above amounts reflect transactions during the period these companies were related.

### 9 Financial instruments

The company's financial instruments recognized in the balance sheet consist of cash and term deposits, accounts receivable, investment and accounts payable and accruals.

Other than the investment, the estimated fair market values of these financial instruments approximate their carrying values due to their short-term maturity. The fair value of investments in marketable securities is determined by the trading price of the shares at the balance sheet date.

### 10 Subsequent events

#### Shulin Lake Mineral Property

On December 14, 2000, the company issued 250,000 common shares at a deemed value of \$0.165 per common share pursuant to the option agreement with Shulin. On March 8, 2001, the company signed an amending agreement with Shulin that reduces the option interest from 50% to 24%. In addition, the company does not have to participate in the next \$150,000 of exploration expenditures, and only has to issue 250,000 additional common shares to secure this 24% interest. If the company decides not to participate in future exploration costs, their interest will be diluted on a pro-rata basis to a minimum 4% profit interest.

## **Shear Minerals Ltd.**

### **Notes to Consolidated Financial Statements**

**November 30, 2000 and 1999**

---

#### **Other mineral properties**

In February 2001, the company made a formal decision not to pursue their interests in the North East Alberta and Boys from the Hall properties. As a result, property costs in the approximate amount of \$75,000 will be written off in the first quarter of 2001.



**OFFICERS & DIRECTORS**

Pamela D. Strand, P. Geol., M.Sc.  
*President & CEO*

Donald R. Planche  
*Vice President & Director*

C. Frank Agar, P. Eng.  
*Director*

David Mullen  
*Director*

**SOLICITORS**

Duncan & Craig  
*Calgary, Alberta*

**AUDITORS**

PricewaterhouseCoopers LLP  
*Edmonton, Alberta*

**TRANSFER AGENT**

Computershare Trust Company  
of Canada  
*Edmonton, Alberta*

**CAPITALIZATION**

Shares Listed • CDNX

Symbol • SRM

Shares Issued • April 17, 2001

15,669,831

Fully Diluted

20,709,831

Options Outstanding

900,000 @ \$0.25 to Jan 2005

20,000 @ \$0.10 to Dec 2002

Warrants Outstanding

1,500,000 @ \$0.165 to Jan 2002

1,551,150 @ \$0.65 to Oct 2002

155,150 @ \$0.45 to Oct 2002

Incorporation Date • Nov 1995

Name Change • Dec 1997  
*from Bass Capital Corp.*



Suite 220, 9797 - 45 Avenue  
Edmonton, Alberta, Canada T6E 5V8  
PH 780-435-0045 • FAX 780-989-0322  
EMAIL [pstrand@compusmart.ab.ca](mailto:pstrand@compusmart.ab.ca)  
[www.shearminerals.com](http://www.shearminerals.com)